

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

September 21, 2004

The Capital Projects and Bond Oversight Committee met on Tuesday, September 21, 2004, at 1:00 PM, in Room 129 of the Capitol Annex. Senator Robert Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Senators Tom Buford and Jerry Rhoads; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Larry Owsley, University of Louisville; Bill Hintze, Governor's Office for Policy and Management; Jim Abbott and Steve Biven, Finance and Administration Cabinet; Ken Schwendeman, Justice Cabinet; Warren Nash, Economic Development Cabinet; Sandy Williams, Kentucky Infrastructure Authority; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the August 17, 2004 meeting as submitted. The motion was seconded by Senator Buford and passed by voice vote.

Senator Leeper called on Ms. Collins to review correspondence and information items. Ms. Collins said members' folders contained two items of correspondence: correspondence from President Tom Layzell, Council on Postsecondary Education, regarding audits of postsecondary leasing programs; the Kentucky Lottery Corporation's (KLC) monthly financial report for July 2004; and, sales projections by KLC for Fiscal Years 2004-2006, including the estimated effect the Tennessee Lottery will have on Kentucky Lottery sales. Ms. Collins said Committee member folders also included a staff update on various capital projects.

Mr. Larry Owsley, Vice President for Business Affairs, University of Louisville (UL), reported a scope increase for the Cardiovascular Innovation Institute. Mr. Owsley said this project was authorized in the 2002-2004 budget for \$21,500,000 (\$1,500,000 federal funds and \$20,000,000 restricted funds). The University is now requesting a scope increase of \$6,080,000 (\$1,280,000 federal funds and \$4,800,000 private funds) in order to add two additional floors to the project to provide for future expansion of the

University's research program. Mr. Owsley said the revised scope would be \$27,580,000 (\$20,000,000 restricted funds, \$2,780,000 federal funds, and \$4,800,000 private funds). Mr. Owsley said the funding source for the \$20,000,000 restricted funds is \$15,000,000 from Jewish Hospital and \$5,000,000 from a grant from the Office for the New Economy. He said the private funds are available as quasi-endowment funds. Mr. Owsley said U of L is still soliciting private donations for this project, and anticipates receipt of one large donation. If these funds are received, the quasi-endowment funds will not be used.

Senator Leeper asked what is meant by quasi-endowment funds. Mr. Owsley said quasi-endowment funds are private, unrestricted funds that have been donated to the University. In response to further questions, Mr. Owsley said this money cannot be obligated for more than one purpose.

Representative Wayne asked who will own the Cardiovascular Innovation Institute once construction is complete. Mr. Owsley said the base area of the Institute, the animal research facility, will be owned by U of L, and Jewish Hospital is acquiring the air rights to the area above the animal research facility. Once the Jewish Hospital portion of the project is fully depreciated, ownership will revert to U of L. Mr. Owsley informed the Committee that U of L intends to use the construction management-at-risk method to build the Cardiovascular Innovation Institute at the Health Sciences Center Campus.

Representative Wayne asked who will administer the facility once construction is complete. Mr. Owsley said the facility is a joint endeavor between Jewish Hospital and U of L, with a partnership with the Office for the New Economy. He explained that the Cardiovascular Innovation Institute Board is co-chaired by U of L President Jim Ramsey and Hank Wagoner, President of Jewish Hospital Healthcare Services. He said the Board also has a joint operating committee and a finance committee, and they will hold regular public meetings on the operations of the facility.

Representative Wayne asked if the U of L Board of Trustees has approved this project. Mr. Owsley said the Cardiovascular Board, which is the Board designated by the Board of Trustees to oversee this project, approved this project at its July meeting. He said the U of L Board of Trustees will receive a report from President Ramsey on Thursday about the status of the project.

In response to a question from Representative Wayne, Mr. Owsley said the private donations for this project have been certified.

In response to a question from Representative Damron, Mr. Owsley said the quasi-endowment funds being used are not funds associated with the Bucks for Brains program. He explained that the Bucks for Brains funds were donated as pure endowment, and the principal amount cannot be spent. Representative Damron said he wanted to make sure

they are not using funds that are used to match the state's contribution for the Bucks for Brains program.

Senator Buford made a motion to approve the scope increase for the Cardiovascular Innovation Institute. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote. The revised project scope is \$27,580,000.

Representative Haydon asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, and Mr. James Abbott, Commissioner, Department for Facilities and Support Services, to present the Finance Cabinet's monthly report to the Committee. Mr. Hintze reported three project scope increases for Department of Military Affairs' projects. The scope of each project is increasing due to higher steel prices and the increased demand for construction materials as a result of Hurricane Charley. He first reported a \$385,000 cost overrun for the VETS Building Replacement project at the Boone National Guard Center in Frankfort. The Department has requested that the \$385,000 be addressed using \$345,000 from federal funds and \$40,000 from its fiscal year 2005 Maintenance Pool funds.

In response to a question from Representative Wayne, Mr. Hintze said the Maintenance Pool funds being used for this project are moneys appropriated in the Governor's Public Services Continuation Plan, and not approved by the legislature.

Senator Buford made a motion to approve the scope increase for the VETS Building Replacement project. The motion was seconded by Representative Damron and passed by roll call vote. Five members voted affirmatively; Representative Wayne voted "No." The revised project scope is \$1,560,000.

Mr. Hintze next reported a \$1,318,180 scope increase for the Morehead National Guard Armory Readiness Center. Mr. Hintze said the scope increase will be covered with federal funds.

Representative Wayne asked what will be the source of funds for operation and maintenance of the facility. Mr. Hintze said the National Guard Bureau will pay for the ordinary maintenance of the building, and if the Guard responds to a federal disaster declaration, the operational cost will be split between the state and federal governments.

Representative Damron made a motion to approve the scope increase for the Morehead National Guard Armory Readiness Center. The motion was seconded by Senator Buford and passed by unanimous roll call vote. The revised project scope is \$6,592,800.

Mr. Hintze reported a \$439,571 scope increase for the Engineer Fire Team Readiness Center at the Wendell H. Ford Regional Training Center. The scope increase is 100% federally funded.

Senator Rhoads made a motion to approve the scope increase for the Engineer Fire Team Readiness Center. The motion was seconded by Representative Damron and passed by unanimous roll call vote. The revised project scope is \$2,830,169.

Mr. Hintze reported an unbudgeted project for the Justice and Public Safety Cabinet, Department for Kentucky Vehicle Enforcement (KVE). He said KVE plans to replace the Department's statewide radio system. He said the existing radio system being used by KVE is over 50 years old and is obsolete. Mr. Hintze said the system will be replaced through a lease-purchase agreement with a term of seven years. He said the cost of the new system, including financing costs, is \$2,102,000, and funding will be from two sources: \$1,050,000 from federal funds and \$1,052,000 in operating funds no longer needed for radio maintenance and cell phone usage.

Representative Marcotte asked how this new radio system will interface with radio systems currently being used by other state and local agencies. Mr. Ken Schwendeman, Executive Director of the Office of Legislative and Intergovernmental Services, Justice and Public Safety Cabinet, said this plan was developed in conjunction with the overall state interoperability plan. He said this system will mirror the existing radio system being used in state police cruisers right now and will integrate with their dispatch consoles. He said KVE will be able to interoperate with the state police, and this system is also integrated into the homeland security interoperability plan.

Representative Wayne asked why the replacement of the radio system was never included in the agency's capital plan. Mr. Schwendeman said KVE was previously part of the Transportation Cabinet, and was moved to the Justice and Public Safety Cabinet within the last eight months. He said he did not know why the Transportation Cabinet did not make a request.

In response to a question from Senator Leeper, Mr. Schwendeman said certain criteria must be met before local law enforcement block grant funds can be used, once those requirements have been met, there are residual funds available for use. He said these funds are a part of that residual.

Representative Damron made a motion to approve the Statewide Radio System Replacement project. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Mr. Hintze next discussed an unbudgeted federally-funded project known as the National Environmental Exchange Network. He said the Environmental and Public

Protection Cabinet, Department for Environmental Protection, plans to establish a project to link to the United States Environmental Protection Agency's National Environmental Exchange Network. The project scope is \$650,000, and is to be 100% federally funded.

Representative Wayne made a motion to approve the project. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Mr. Hintze reported three information items. He reported that the Department for Mental Health and Mental Retardation Services in the Cabinet for Health and Family Services (CHFS) has reversed its decision regarding the purchase of modular homes for Oakwood. At its October 2003 meeting, the then Cabinet for Health Services told the Committee they wished to modify the Structural Repair/Renovation project at Oakwood, authorized in the 2002-04 budget, by instead purchasing new modular homes for the facility. Mr. Hintze said CHFS has reconsidered that decision, and now plans to go back to the original plan of renovating the cottages. Senator Leeper said no further action on this project was required.

Mr. Hintze next reported that Northern Kentucky University (NKU) plans to consolidate two projects – the Lake Improvement project and the Central Plaza Reconstruction and Amphitheater project. He said given the proximity of these projects, it would be best to combine them for engineering and design purposes and to proceed in a manner such that they would proceed only as far as the donated funds they have in hand will take them. Mr. Hintze said the combined project scope is \$2,400,000, and they have approximately \$1,948,000 in hand.

Mr. Abbott added that there will be some savings in the design and construction of this project by combining the two.

Senator Leeper asked if the Finance Cabinet will receive a financing plan for this project. Mr. Hintze said the Finance Cabinet Secretary will receive that plan. He said they have received certification that the \$1,948,000 is in hand, and as they receive additional donations, plans for those funds will be submitted to the Finance Cabinet Secretary also. Mr. Hintze said they will not be allowed to proceed to any phase of the project that is not already financed. Senator Leeper requested that the Committee staff be given a copy of any financing plan that is submitted to the Finance Cabinet.

The final item Mr. Hintze presented was a land acquisition report for the Department of Fish and Wildlife Resources. He said the newest tract of land the Department acquired for the Peabody Wildlife Management area is 1,202 acres in Hopkins and Muhlenberg Counties at a cost of \$678,000.

Senator Leeper said no action was required for the information reports.

Mr. Steve Biven, Director for the Division of Real Properties, then presented a lease renewal report and an emergency lease renewal report.

Mr. Biven reported a lease renewal for the Department of Revenue in Franklin County (PR-3386). The current lessor requested an increase from \$8.20 per square foot to \$9.25. A competitive bid process was conducted, and it was recommended that this agency continue to lease the space they are located in now. He said although the current lessor did not submit the low bid, once the moving costs were considered, it was more beneficial and cost-effective to stay with the current lessor.

Representative Damron noted that the owner of the building is the Kentucky Retirement Systems and reminded members of past discussions the Committee had concerning the possibility of the Kentucky Retirement Systems investing in additional buildings that could then be leased to state government.

Representative Damron then made a motion to approve the lease renewal project. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Mr. Biven next reported an emergency lease renewal for the Cabinet for Health and Family Services (PR-4676) in Lewis County. Mr. Biven said the emergency lease is being renewed for a period of five months until a new leased facility for the Cabinet is completed. He said the current lessor was not willing to renew at the current rate of \$1,000 per month, but offered a rate of \$5,000. The Cabinet began to look for other temporary space, and the lessor agreed to a rate to \$3,000 per month. Mr. Biven said given the short time period of this lease, the increased cost is less than it would take to move to alternate temporary space for a few months. He said the new facility should be completed in November. Senator Leeper said no action was required for emergency leases.

Senator Leeper asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Economic Development Cabinet, to report on one Economic Development Bond (EDB) project. Mr. Nash reported a grant of \$450,000 to the City of Madisonville, to benefit Land O' Frost, Inc. The company is considering the construction of a 175,000 square foot facility in the City of Madisonville for prepackaged lunchmeat production at a cost of \$43 to \$49 million.

Mr. Nash said the EDB funds will be used to help offset a portion of the cost associated with the project. In return for the grant, the company will be required to create 300 new full-time jobs within three years of grant disbursement and maintain these jobs for two years. If they do not create or maintain these jobs, the company will be required to pay the City of Madisonville \$1,500 for each job not created or maintained. The company also will be required to pay a minimum annual average hourly wage of \$11.63.

Senator Rhoads said it was his pleasure to work with Land O' Frost, Inc. He said the company currently has two other plants – one in Lansing, Illinois, and one in Searcy, Arkansas. He said Land O' Frost is projecting as many as 500 jobs at an average wage of \$12-\$18 an hour.

Senator Rhoads thanked the Economic Development Cabinet for working so closely with the City of Madisonville to secure this plant. He said there was a lot of competition for Land O' Frost, and it came down to Tupelo, Mississippi and Madisonville, Kentucky.

Representative Wayne asked if the bond money being used for this grant was from the 2003 bond authorization. Mr. Nash replied affirmatively.

Senator Rhoads made a motion to approve the EDB grant. The motion was seconded by Senator Buford and passed by unanimous roll call vote.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), next reported two new KIA loan requests. The first was a \$700,000 Fund B loan for the Union County Fiscal Court. The proceeds will be used to help finance construction of a nine-mile sewer main.

The second loan request was a Fund C loan in the amount of \$2,809,000 for the City of Nortonville in Hopkins County. The proceeds will be used to expand the existing wastewater treatment plant.

Senator Rhoads made a motion to approve the Fund B and Fund C loans. The motion was seconded by Representative Wayne and passed by unanimous roll call vote. The Fund C loan was approved subject to the City of Nortonville meeting the conditions stipulated by KIA.

Ms. Williams said included in members' folders were reports from KIA regarding an amended 2020 grant for Western Fleming County Water District and new Tobacco and Coal Development Grants. No further action was required on these projects.

Senator Leeper then recognized Representative Rocky Adkins, House Majority Floor Leader, in attendance at today's Committee meeting.

The next report was provided by Mr. Tom Howard, Acting Executive Director, Office of Financial Management (OFM). Mr. Howard reported three new bond issues. The first bond issue reported was Kentucky Housing Corporation (KHC) Single Family Housing Revenue Bonds, 2004 Series F and G, with gross proceeds not to exceed

\$60,000,000. The proceeds of the bond issue will be used to provide mortgage financing for Kentucky homebuyers.

Senator Buford made a motion to approve Single Family Housing Revenue Bonds, 2004 Series F and G. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Mr. Howard presented another new bond issue: KHC Single Family Mortgage Revenue Bonds, Draw Down Series 2005. The proceeds from this bond issue (\$500,000,000), will be used to provide mortgage financing for Kentucky homebuyers.

In response to a question from Representative Wayne, Mr. Howard said the advantage of using a separate trust indenture is KHC will be able to capture the alternative minimum tax (AMT) status and non-AMT status of even older bonds, and continue to have the bonds outstanding so they are not retired. Once the prepayments come in and bonds are redeemed, they cannot be recycled. By structuring the bonds this way, they preserve the private activity bond allocation. Mr. Howard said this is at least the third time they have structured this particular type of transaction in a given year. He said it is very cost-effective for KHC.

Representative Damron made a motion to approve the KHC bond issue. The motion was seconded and passed by unanimous roll call vote.

Mr. Howard reported another new bond issue: Kentucky Local Correctional Facilities Construction Authority Multi-County Correctional Facilities Revenue Refunding Bonds, Series 2004 in an amount not to exceed \$26,950,000.

Senator Leeper asked if the local participants will benefit from the savings realized as a result of the refunding bonds. Mr. Howard said the local participants that have loans and did not receive grants will receive savings. He said there are ten counties that will actually have savings. On average, the local portion of the annual savings will be \$54,000, or \$541,000 split between ten counties.

Representative Damron made a motion to approve the new bond issue for the Kentucky Local Correctional Facilities Construction Authority. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Mr. Howard said included in members' folders was one follow-up report for previously issued bonds: Kentucky Higher Education Student Loan Corporation Student Loan Revenue Bonds, Senior Series 2004 A-1 through A-6 and Subordinate Series 2004 B-1, \$350,000,000. Senator Leeper said no action was required for this report.

Mr. Howard next presented two new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Campbellsville Independent (Taylor County) and Madison County.

Representative Wayne made a motion to approve the two school bond issues. The motion was seconded by Senator Buford and passed by roll call vote. Five members voted affirmatively; Representative Damron abstained from the vote, citing a potential conflict of interest.

Senator Leeper said there were three locally-funded school bond issues submitted to the Committee for review this month: Fleming County, Garrard County, and Jefferson County. He said all disclosure information has been filed, and no further action on the bond issues is required.

Also included in members' folders was the Annual Report of Bonds Outstanding and the debt issuance calendar. Senator Leeper said no action was required for these reports.

Senator Leeper said the Committee's next meeting is scheduled for October 19 at 1:00 p.m.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded, and the meeting adjourned at 2:05 p.m.